

I. BACKGROUND

The past decade has seen vast changes in both this country's economy and its social welfare policy. The 1990s began with a recession, but the economy rebounded, and since 1993 more than 10 million jobs have been created, unemployment rates have reached their lowest level in a generation, and high demand for low-wage workers has created a very tight labor market. During this same decade, public assistance caseloads rose rapidly to a historical high point and then decreased with even greater speed to their lowest level in decades. Food stamp caseloads have followed this pattern and also continue to decline. While researchers may agree on the numbers, they do not agree on what caused such dramatic drops in both welfare and food stamp caseloads.

This chapter has three main sections. In the first section, we describe the changes in unemployment rates and welfare and food stamp caseloads that occurred during the 1990s. In the second, we describe major changes in welfare, childcare, and food stamp policies during the 1990s. In the third section, we describe the efforts in the econometric literature to distinguish the effects of changing economic conditions and policy changes on levels of welfare and food stamp participation.

A. CHANGES IN UNEMPLOYMENT RATES AND WELFARE/FSP CASELOADS

The U.S. economy has experienced a prolonged expansion for most of the 1990s. Unemployment rates for the entire country rose from 5.2 percent in March 1990 to 7.4 percent in March 1992, but fell every year since then, reaching a low of 4.2 percent in March 1999. From 1992 through 1998, the average monthly unemployment rate fell by three percentage points for the country as a whole (Table I.1). Over this period, five states--Massachusetts, Michigan,

TABLE I.1
Change in State Unemployment Rates, 1992 to 1998

<i>State</i>	<i>Average Monthly Unemployment Rate</i>		<i>Difference Between 1998 and 1992</i>
	<i>in 1992 (%)</i>	<i>in 1998 %</i>	
Nation	7.5	4.5	-3.0
Massachusetts	8.6	3.3	-5.3
Michigan (Wayne County)	8.9	3.8	-5.1
West Virginia	11.4	6.5	-4.9
New Hampshire	7.5	2.7	-4.8
Rhode Island	9.0	4.7	-4.3
Connecticut	7.6	3.7	-3.9
Florida	8.3	4.5	-3.8
Indiana	6.6	3.0	-3.6
New Jersey	8.5	4.8	-3.6
Arizona	7.6	4.0	-3.6
Alabama	7.4	4.0	-3.4
California	9.3	5.9	-3.4
Vermont	6.7	3.3	-3.4
Virginia	6.4	3.1	-3.3
Alaska	9.3	6.0	-3.2
Illinois	7.6	4.4	-3.2
Pennsylvania	7.6	4.5	-3.1
Mississippi	8.2	5.2	-3.1
Ohio	7.3	4.3	-3.1
New York (NYC)	8.6	5.6	-3.0
Washington	7.6	4.6	-3.0
Georgia	7.0	4.0	-3.0
South Carolina	6.4	3.5	-2.9
Texas	7.7	4.8	-2.9
Louisiana	8.2	5.3	-2.8
Maine	7.2	4.4	-2.8
North Dakota	5.1	2.3	-2.8
Colorado	6.0	3.3	-2.7
Minnesota	5.2	2.5	-2.7
Kentucky	6.9	4.3	-2.7
North Carolina	6.0	3.4	-2.6
Nevada	6.7	4.2	-2.5
Oregon	7.6	5.4	-2.2
Maryland	6.7	4.5	-2.2
Arkansas	7.3	5.1	-2.2
Tennessee	6.4	4.2	-2.2
Iowa	4.7	2.6	-2.1
Wisconsin	5.2	3.2	-2.0
Utah	5.0	3.2	-1.8
Missouri	5.7	4.0	-1.7
Oklahoma	5.7	4.0	-1.7
Delaware	5.4	3.7	-1.7
Idaho	6.5	5.0	-1.5
Montana	6.9	5.4	-1.5
Wyoming	5.7	4.5	-1.3
Nebraska	3.0	2.1	-0.9
Kansas	4.3	3.6	-0.7
New Mexico	7.1	6.4	-0.6
South Dakota	3.2	2.6	-0.6
District of Columbia	8.5	8.6	0.0
Hawaii	4.5	5.8	1.3

SOURCE: U. S. Bureau of Labor Statistics, Local Area Unemployment Statistics
[<http://146.142.4.24/cgi-bin/surveymost?la>]

West Virginia, New Hampshire, and Rhode Island--experienced decreases of four percentage points or more in their average monthly unemployment rates. Only Hawaii and the District of Columbia did not experience a reduction in their unemployment rates from 1992 through 1998.

At the same time that the country experienced dramatic declines in unemployment rates, it also experienced dramatic declines in welfare and Food Stamp Program (FSP) participation. The number of people receiving federal cash assistance for families with children hovered around 14 million from 1993 through 1995, but declined by one-third to 9.1 million by January 1998, and by an additional 1.5 million to 7.6 million by December 1998. From December 1992 through December 1998, the average number of people receiving food stamps each month declined by 29 percent, from 27 million to 19 million. The drop in participation in both programs was most dramatic after federal welfare reform legislation was passed in 1996. We describe below the consequences of this legislation for welfare, childcare, and food stamp policies.

B. CHANGES IN WELFARE, CHILD CARE, AND FOOD STAMP POLICIES

1. Changes in Welfare Policy

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) created the Temporary Assistance for Needy Families (TANF) block grant to replace the Aid to Families with Dependent Children (AFDC) program. Under AFDC, welfare policy was defined on a national level, giving states few opportunities for innovation. States determined the generosity of benefit levels, but most other decisions were made on the national level. PRWORA gives states the flexibility to create new cash assistance programs for families with children.

While this federal welfare reform legislation signified a major change in social policy, it was not the beginning of welfare reform. During the early to mid-1990s an increasing number of

states applied for and received waivers from the U.S. Department of Health and Human Services (HHS) to pursue welfare demonstration programs. Before PRWORA was enacted, 45 states and the District of Columbia had HHS-approved waivers. Some waivers were limited to selected counties within a state, while others applied statewide. States sought waivers in a variety of areas, including proposals to expand earnings disregards, raise program asset limits, remove restrictions on eligibility for two-parent families, expand JOBS participation requirements, and impose stricter sanctions, time limits and school attendance requirements. Many of these demonstrations focused on a work-first approach to decreasing dependency on public assistance as opposed to reducing or eliminating assistance. This move toward “personal responsibility” shaped the welfare reform legislation in effect today. While the federal legislation establishes a variety of minimum requirements in some areas, there is considerable flexibility for states to exceed these minimum requirements or to use state discretion in others areas.

PRWORA made considerable changes in many areas, including public assistance funding and eligibility, time limits, and work requirements. Public assistance funding was changed from a matching grant to a block grant, ending the categorical guarantee of assistance to eligible families. Under AFDC, families could receive public assistance for as long as they remained eligible. As its name suggests, TANF is rooted in the idea that assistance should be transitional to help families through times of extreme need. For the first time, families are subject to a 60-month federal time limit on cash welfare benefits. Welfare recipients are also expected to seek and engage in work activities in an effort to achieve self-sufficiency. PRWORA requires parents receiving TANF benefits to work within 24 months of entering the program and imposes annual work participation rates that all states must meet or face financial penalties.

2. Changes in Child Care Policy

The enactment of PRWORA introduced significant changes in the funding structure and program approach of the subsidized child care system. The amended Child Care and Development Block Grant unifies a formerly fragmented child care system. It repealed the AFDC-JOBS Child Care program, the Transitional Child Care program, and the At-Risk Child Care program, and child care funding was combined under the new Child Care and Development Fund (CCDF). By consolidating these federal funding pools and relaxing regulations, CCDF offers states streamlined funding source. PRWORA gives states considerable authority and flexibility over systems for child care assistance to low-income families. For instance, states can now define eligibility and benefit levels with systems that provide child care assistance to families receiving welfare, with adults entering the workforce, or for families transitioning from cash benefits aid.

3. Changes in Food Stamp Policy

In addition to making major changes in cash assistance and child care subsidies to low-income families with children, PRWORA introduced some major changes in the Food Stamp Program that were likely to reduce levels of FSP participation. PRWORA required able-bodied adults without dependents (ABAWDs) to participate in work-related activities after three months or lose eligibility for food stamp benefits. States could apply for waivers of this requirement in counties with high unemployment rates or a shortage of low-skill jobs. By March 10, 1999, 19 states had waiver programs effective some of their counties. PRWORA also eliminated FSP eligibility for most resident aliens in the United States, with the exception of certain refugees and asylees. By July 1998, 17 states had established alternative food assistance programs for some FSP-ineligible immigrants.

Of all the changes adopted under PRWORA, the changes in FSP eligibility for ABAWDS and immigrants affect FSP participation most directly. At the same time, the shift from the old AFDC system toward new state TANF programs is likely to have dramatic consequences for the FSP, since about two-fifths of food stamp households received AFDC benefits during the early 1990s. Because a household's food stamp allotment depends directly on its level of earnings and cash welfare benefits, policies that promote higher earnings, or lower levels of welfare benefits, could affect total levels of food stamp benefits paid to households. While state childcare subsidies do not directly enter into the calculation of food stamp benefits, they could be part of a welfare-to-work strategy that affects the level and composition of income for households receiving food stamps. If household earnings increase because of more generous child care provisions, then FSP participation rates and benefit levels may be different under welfare reform, even if TANF provisions do not differ from the provisions of the old AFDC program. Even if a household retained FSP eligibility under welfare reform, reduced reliance on cash assistance, and an increased emphasis on self-sufficiency, could lead many households to forgo FSP benefits voluntarily. This voluntary non-participation in the FSP could be especially likely when expected FSP benefits are low, or when the stigma or hassle of collecting food stamps is high.

C. EFFORTS IN THE LITERATURE TO EXPLAIN CASELOAD DECLINES

1. Explaining Declines in Welfare Participation

There is contentious discussion about the cause of the dramatic decreases in the AFDC/TANF caseloads. The growth of the economy paralleled the programmatic changes in policy, making it difficult to isolate the impact of each variable on caseload decline. Some research points to the economy as the absolute driving factor in caseload decline, while other research identifies policy changes as having the ultimate impact. While there is research

supporting these two extremes, most believe a combination led to the steep 37 percent decline in the AFDC/TANF caseload in the past three years.

According to the conclusions of a 1997 technical report published by the Council of Economic Advisers (CEA), over 40 percent of the decline in the aggregate national AFDC caseload from 1993-1996 can be attributed to economic growth. In addition, almost one-third of the decline is related to waivers -- particularly those with disincentives for recipients who fulfill work requirements. Various studies including Martini and Wiseman (1997) challenged the CEA study's methodology and cautioned policy makers against using it to formulate future welfare policy at the national or state level.¹ Wallace and Blank (1999) concluded that at best, the ongoing decline in unemployment rates can explain about 8 to 19 percent of the AFDC caseload declines since 1994 and about 28 to 44 percent of the food stamp caseload declines. They also say that the impact of welfare reform explains a minimum of 8 percent of the caseload decline in AFDC/TANF and 6 percent of the decline in food stamp caseloads from 1994 through 1998, up to 75 percent of the AFDC caseload decline and up to 85 percent of the food stamp caseload decline. They account for the wide range between these minimum and maximum estimates by citing the need for further research to look at the other variables that may be driving the caseload changes, such as less-measurable factors including their own sense of the "acceptability" of utilizing public assistance.²

¹Martini, Alberto and Michael Wiseman, "Explaining the Recent Decline in Welfare Caseloads: Is the Council of Economic Advisers Right?" The Urban Institute, July 1997.

²Wallace, Geoffrey and Rebecca Blank, "What Goes Up Must Come Down? Explaining Recent Changes in Public Assistance Caseloads," Paper prepared for the conference, Welfare Reform and the Macroeconomy, sponsored by the Joint Center for Poverty Research, February 1999.

In Figlio and Ziliak's study (1998), the authors attribute about 18 percent of the caseload decline to welfare reform in monthly models in the 20 states with the largest caseload declines, and up to 27 percent at quarterly frequencies. In Wisconsin and Oregon, they were able to attribute about 65 and 45 percent of the caseload decline to welfare reform, respectively.³

A recent study by the Heritage Foundation concludes that the sharp decline is due almost entirely to tough state welfare reform policies and not to the robust economic times. The study points to statistics that show that states with the strictest sanctions for noncompliance have experienced a 41.8 percent reduction in their TANF caseloads during the past three years while states with less aggressive sanctions have cut their caseloads by averages of 17.3 and 28.3 percent.

2. Explaining Declines in Food Stamp Participation

According to the U.S. Department of Agriculture, Food and Nutrition Service, the number of people receiving food stamps fell by more than 5.9 million from the summer of 1994 through the summer of 1997, with most of the decline occurring in the year from September 1996 to September 1997. Among participants: The number of legal immigrants fell by 54 percent, accounting for 14 percent of the total decline; the number of childless unemployed adults fell by 44 percent, accounting for 8 percent of the total decline; the number of food stamp households receiving welfare benefits fell by 28 percent, representing 61 percent of the decline.⁴ The USDA

³Figlio, David and James Ziliak, "Welfare Reform, the Business Cycle, and the Decline in AFDC Caseloads." Prepared for the conference, Welfare Reform and the Macro-economy, October 1998.

⁴U.S. Department of Agriculture, Food and Nutrition Service, Office of Analysis, Nutrition, and Evaluation. "Who is Leaving the Food Stamp Program? An Analysis of Caseload Changes from 1994 to 1997." USDA, March 1999.

also noted that the number of single-parent families, the group most affected by welfare reform, fell by 17 percent. Within this group, the number receiving AFDC or TANF benefits fell by 27 percent but the number of those not receiving welfare rose by 9 percent -- suggesting that welfare reform was partially responsible for decreasing welfare caseloads. Had it been solely the strong economy, the number of food stamp households, regardless of welfare eligibility, would have both fallen by similar amounts. Furthermore, it suggests that some families that no longer receive welfare continue to receive food stamps.

Although welfare caseloads declined during economic expansion and in the midst of significant welfare and FSP reform, these conditions may not have precipitated declining food stamp participation. Even though FSP has changed fundamentally, for single mothers and their children on AFDC/TANF, the program has not changed. Food stamp caseloads decreased slightly faster than AFDC caseloads in the mid-1990s, partly because the legislation that abolished AFDC prevented food stamp eligibility for numerous immigrant groups, and limited food stamp availability for families without children. Nevertheless, caseloads have continued to decline, even after the implementation of these changes. The tight historical correlation between food stamps and AFDC eligibility raises many questions about the effect of current welfare reform on food stamp usage. People may be leaving food stamps at the same time as AFDC/TANF, not realizing that they may still be eligible for food stamp benefits.

There are some efforts in the literature to explain the decline in food stamp cases. Wallace and Blank concluded that the impact of welfare reform, at minimum, explains 6 percent of the caseload decline in food stamps from 1994 through 1998 and at a maximum, 85 percent. Moreover, the ongoing decline in unemployment rates can explain about 28 to 44 percent of the food stamp caseload declines since 1994. The wide range between estimates suggests the need

for further study to distinguish the contributions of changing unemployment rates, welfare reform, and other factors to recent declines in food stamp caseloads. Knowing the extent to which declining unemployment rates are responsible for lower food stamp caseloads will guide the future development of welfare and food stamp policy and will help administrators anticipate the likely effects of a future recession on food stamp caseloads and costs.